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SUBJECT: VIETNAM: TRANSPARENCY OF BUDGETS/MILITARY SPENDING

REF: STATE 239929

[1](#)1. Summary: The transparency of Vietnam's budget and audit process has improved since the last reporting on this issue. The Law on State Budget effective January 2004 made significant changes including giving the National Assembly (NA) final approval over the budget and its allocation to all GVN entities, requiring disclosure of budget data and charging the Ministry of Finance's (MOF) inspectorate with verifying compliance. Another mechanism of civilian oversight of State budget settlements is the State Audit of Vietnam (SAV) whose independence the NA just moved to enhance by shifting SAV reporting to the NA from the government in a new law that should be passed in the May legislative session. Based on these procedures, civilian authorities review receipts and expenditures funding military and security activities. From this information, Embassy considers Section 576 (A) of the Foreign Operations Act of 1997 inapplicable in the case of Vietnam. End Summary.

State budget development and approval process

[1](#)2. Decree 60 issued in June 2003 governs the budget process for all central government ministries and agencies, including the Ministries of Defense (MOD) and Public Security (MPS). This process, which post verified with MOF's Department of the State Budget, is as follows: Each year, by May 31, the Prime Minister (PM) issues a directive on budget estimates based on the Government's socio-economic development objectives. Before June 10, MOF and the Ministry of Planning and Investment (MPI) issue circulars guiding the development of budget estimates to include projected overall figures for all Government agencies. Based on this directive and MOF and MPI's circulars, each agency, including MOD and MPS, must negotiate and prepare a budget estimate plan for MOF and MPI. MOF and MPI compile the national budget and budget allocation plan for submission to the Government. The PM then authorizes MOF to report and justify the plan to seek NA approval. Based on the NA's resolutions on the state budget estimate and budget allocation plan, MOF submits the final approved plan to the PM for assignment to each government agency by November 20.

[1](#)3. In the national and local budgets, productive development objectives are prioritized over non-productive objectives. The law on state budget lists development investment (including construction of infrastructure, investment and support for SOEs, addition to the State reserve fund) as the first budget expenditure objective. Expenditures for defense and security, described in Articles 31 and 33, are part of regular expenditure and listed after expenditure for education and training, health care, social affairs and culture and information.

[1](#)4. Regarding off-budget items, Deputy Director To Nguyen of MOF's Department of the State Budget said that according to law, all ministries must report every item for both revenues and expenditures, including MOD and MPS. On unallocated or discretionary spending in the budget, he stressed that every ministry and agency must fully allocate its proposed budget. Only the Office of the Government (OOG) and provincial governments have an unallocated portion generally between two and five percent.

[1](#)5. According to the law, once the budget has been approved, in case of major changes that require an overall budget adjustment, the Government shall estimate the budget adjustment and submit to the NA for a decision at its next session. For urgent national defense or security needs, or if an adjustment of a ministry or agency's budget that does not cause changes to the overall budget is required, the Government must seek a decision from the NA's Standing Committee and report to the NA at its next session.

New Law on State Budget

[1](#)6. A new State Budget Law was passed in December of 2002 and

took effect January 1, 2004, replacing Vietnam's first Law on State Budget passed in 1996. According to Mr. Nguyen, the major change that took effect in 2004 is a decentralization of budget authority to the local level. One significant aspect of the New Law on State Budget is a strengthening of the public disclosure provisions in Article 13. Since 1996 the State Budget Law has required the publication of both the National Budget and the audit result of the state budget. The breakdown of MOD and MPS numbers in the approved budget settlements for 2003 and in the budget estimate for 2005 will be published for the first time under the new State Budget Law. In the past, these numbers were published only as an overall figure under National Defense and Security. The law requires that budget settlements must be published within 18 months and budget estimates must be published within 60 days. The budget settlement for 2003 is scheduled to be approved by the NA in April or May of 2005. The budget estimate for 2005 has been passed by the National Assembly and will be put online by mid January or February of 2005.

Audit of State Budget

17. The State Audit of Vietnam (SAV) was established in 1994 as a civilian authority attached to the Government. The Law on State Budget states that SAV has authority to audit and certify: the accuracy and lawfulness of the settlements of State budget at various levels, the final settlement of the state budget, the final settlement and financial reports of agencies or organizations using State budget, and general compliance with the law in managing and using the State budget and public property. The law also confirms that when performing its tasks SAV is independent and is held responsible before the law for its auditing conclusions. The auditing of budget settlements must be carried out each year before the National Assembly and the local People's Councils ratify the new budget. According to Mr. Nguyen of MOF, SAV has been an effective instrument especially in inspections and in identifying violations by ministries.

18. Among the SAV's tasks and powers are to promulgate, guide and inspect the implementation of professional auditing criteria and procedures. The SAV must also supply the auditing results to State agencies and publicize the annual audit report. SAV has the right to request any audited agency or organization to provide their annual settlements or financial reports including vouchers, accounting books and relevant documents necessary for the audit. In addition to its duties to inspect and settle complaints and denunciations, combat corruption, negative acts and handle violations in the auditing activities, SAV should also propose appropriate amendments and supplements of mechanisms, policies and regulations to the Government, the PM and the State management agencies.

19. SAV has functional auditing departments including the State Budget Audit, Investment - Project Audit, SOEs Audit, Financial Institutions Audit, and Special Programs Audit. It also has five regional offices located in Hanoi, Nghe An, Da Nang, Ho Chi Minh City and Can Tho. The PM currently appoints and dismisses the State Auditor General and State Auditor Deputy Generals. However, the new draft law on state audit further strengthens independent civilian oversight by proposing that the State Auditor General and State Auditor Deputy Generals should instead be appointed or dismissed by the NA.

Draft Law on SAV

10. While there were no significant changes in the new State Budget Law regarding SAV, a new draft law on the State Audit is currently awaiting a decision. The key elements being debated are whether SAV should be attached to the Government or should report to the NA and, as mentioned above, who has the authority to assign the position of Chief Auditor. According to the local press, the NA has voted to make SAV an agency attached to it, rather than to the Government, to ensure its independence. The NA Information and Press Department confirmed that a majority had voted to change the draft law to have the SAV report to the NA rather than to the OOG. As a result, the draft law will need to be revised by SAV and resubmitted to the NA. A review of the revised draft law on SAV is already proposed for the official agenda for the NA's May 2005 session. In addition to the annual audit, OOG currently has the authority to request ad hoc audits of specific agencies or ministries. Under the new law on state audit currently being revised, the NA would be able to call for such audits.

MOF budget inspection - Financial Inspectorate

11. The Law on State Budget stipulates that besides SAV, MOF's Financial Inspectorate also is responsible for verifying compliance with the state budget law and checking

the management of state properties by organizations and individuals, including the MOD and MPS. When performing its tasks, the Financial Inspectorate can request relevant documents from organizations or agencies being inspected. If a violation is found, the Finance Inspector has the right to propose that competent agencies recover the amounts in violation of the State budget. Depending on the nature and the seriousness of the violation, the Financial Inspector can either deal with or request that the relevant State agency or ministry deal with the violation. Reflecting the importance and magnitude of its duties, the Financial Inspectorate is the largest department in MOF. Mr. Nguyen of the Department of the State Budget confirmed that this internal verification and inspection process has received increasing attention and MOF has promulgated a decision that directs each ministry to also set up an internal audit process.

12. The World Bank and International Monetary Fund representatives both said that Vietnam had made great strides in budget transparency in recent years. Once the new audit law is in place, the system will be further improved.

13. Comment: Section 576 (A) of the Foreign Operations Act of 1997 requires the U.S. executive directors of international financing institutions to vote against lending to countries not having in place functioning systems for reporting to civilian authorities financial audits or defense and security activities. The State budget estimate process and public disclosure provisions in Vietnam's Law on State Budget, the Financial Inspectorate receipts and expenditures verification activities of MOF, and current State Audit of Vietnam appear to indicate that receipts and expenditures funding military and security activities are reviewed by and reported to civilian authorities in Vietnam. The new State Budget Law that took effect in January 2004 strengthens public reporting requirements, particularly in the case of defense and security spending. In addition, a new draft law on state audit, currently under revision, further increases civilian oversight over the state audit agency and its practices. Based on this information, Embassy considers Section 576 (A) of the Foreign Operations Act of 1997 inapplicable in the case of Vietnam. End Comment.

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